



July 14, 2005

The Honorable Glenn Koepp  
Secretary of the Senate  
State Capitol  
Baton Rouge, LA 70804

RE: Senate Bill No. 259 by Senator Kostelka  
Tax/Taxation: Provides for the calculation of a deduction from Louisiana income for interest expense applicable to investments which produce or which are held for the production of allocable income.

Dear Mr. Koepp:

In an effort to assist Louisiana headquartered companies ~~in~~ particular Northeast Louisiana ~~as~~ Century Tel, Inc. (CenturyTel) of Monroe ~~by~~ addressing a complicated issue in Louisiana ~~as~~ corporate income tax code, SB 259 was proposed by Senator Kostelka. I want to compliment Senator Kostelka for sharing my commitment to CenturyTel and for attempting to resolve the issue of interest expense deductibility in the legislative process. Unfortunately, as my administration realized when we were confronted with trying to resolve this very issue for CenturyTel earlier this Spring, workable solutions are difficult to find. In particular, SB 259 as enrolled has the unintended consequence of raising taxes on some Louisiana headquartered companies while reducing taxes on others. It is for that reason that I am vetoing SB 259 and offering CenturyTel tax equalization so that CenturyTel will still get the benefits of SB 259 without having other Louisiana headquartered companies harmed in the process.

Let me first give some background on this decision and the efforts I have made over the past 18 months to attract and retain Louisiana headquartered companies like CenturyTel. These efforts go beyond the very important legislation I signed into law last year to phase-out the corporate franchise tax on debt and sales tax on manufacturing machinery in equipment, which will provide \$1 billion of tax relief to Louisiana businesses over the next seven years.

In June of 2004, I was confronted with a difficult problem: a home grown Louisiana company with nearly \$2 billion in worldwide sales, SCP Pools, was considering moving its headquarters with nearly 200 employees out of Louisiana because of a peculiarity in our tax code that adversely affected companies which are headquartered in our state but do business beyond our borders. At that time, I did what I had to do to save those jobs ~~and~~ offered SCP Pools tax equalization ~~and~~ resolved to ask the legislature to fix the problem so that Louisiana ~~as~~ tax laws were designed to attract and retain companies headquartered in our state. A year later, I am pleased to say that SCP Pools is still headquartered in Louisiana and is growing so fast it was recently added to the Russell 1000 list of publicly traded companies, and I have signed into law House Bill No. 679, the Louisiana Headquarters and Growth Act, so that our tax laws give an incentive to companies headquartered in Louisiana like SCP Pools that make significant capital investments and have significant payroll.

Mr. Koepp

Foremost in my mind over the past year as my administration has worked to resolve these issues were companies headquartered in Louisiana like CenturyTel. In particular, I wanted to make sure that companies like CenturyTel maintain their headquarters and their \$105 million of Louisiana payroll in Monroe and knew we needed legislation like House Bill No. 679! That is why I was so proud to be joined on July 1, 2005, in Chalmette, Louisiana when I signed HB 679 into law by the President and CEO of CenturyTel, Mr. Glen Post III. Glen is a good friend and an outstanding business leader, and he and his team at CenturyTel contributed greatly to the development of House Bill No. 679 and the rest of my economic development package. This bill has been praised by the business community and economic development site consultants alike from around the country, and you can bet it will be part of every pitch I and my economic development team make in the coming years.

Unfortunately, during the development of House Bill No. 679, consensus among the many interested parties did not materialize regarding the question of how best to allow the deductibility of parent company interest expenses from Louisiana corporate income taxes. This is a complicated issue of corporate taxation that needs to be addressed properly, for how deductibility of interest expenses is allowed can affect companies very differently. But because of the particular importance of this issue to CenturyTel, I made sure to add another provision to my revision of Louisiana's Tax Equalization statutes, House Bill No. 795, one which allows CenturyTel to be eligible for two additional five year tax equalization contracts. I signed that bill into law on July 1, 2005, and I have conveyed to Mr. Post my formal invitation for CenturyTel to apply for tax equalization. When we complete that process in the very near future, even if the issue of interest expense deductibility has not been resolved legislatively, CenturyTel will not be harmed. Its corporate taxes will be reduced to the level they would be in another state that has a more favorable tax structure to the company than Louisiana, particularly as it may relate to the deductibility of interest expenses.

I am providing this information as a prelude to discussing my concerns about Senate Bill No. 259 because I want to make clear to everyone that making sure CenturyTel and its 2,100 employees stay headquartered in Monroe, Louisiana is vitally important to me and critical to our Louisiana. Fortunately, between House Bill No. 679 and House Bill No. 795, Louisiana has the ability to offer CenturyTel a tax package as competitive as anywhere in America, and I have already done so.

In the case of the solutions proposed through Senate Bill No. 259, there are a number of problems. First, while the bill attempts to benefit Louisiana headquartered companies, it actually is much broader than that because NAICS Section 551114 includes centralized administrative offices, corporate offices, district and regional offices, head offices, holding companies that manage, and subsidiary management offices as examples. There is no requirement that the headquarters operation or holding company be in Louisiana. My administration has also been advised that the reference to the NAICS system will open a Pandora's box of tax planning opportunities and in time there will be other companies without a Louisiana headquarters that will find ways to game the system.

Mr. Koepp  
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Second, the benefit of the bill is really based on the asset and wage ratios, not location. Depending on those ratios, some Louisiana headquartered companies will pay more tax, not less. In fact, a cursory review by the Louisiana Department of Revenue revealed that at least one Louisiana headquartered company would face a substantially higher tax bill if this bill were to become law. While that outcome was certainly not intended by the author, raising taxes on one or more Louisiana headquartered companies who we are trying to help would be the result of this legislation becoming law. Additionally, the origination in the Louisiana Senate of this bill which raises taxes on at least some taxpayers instead of the Louisiana House or Representatives also puts it at risk to a constitutional challenge, which one could presume will be filed by taxpayers adversely affected by the legislation.

Third, the proposed use of the wage ratio in determining the deductibility of interest expenses does not represent the best tax policy as there is simply no relationship between this ratio and interest expense. The ratio of salaries, wages and other compensation paid in Louisiana to salaries, wages, and other compensation paid everywhere is incongruent with the amount of interest expense incurred to produce income. If Louisiana were to enact Senate Bill No. 259 into law, we would be the only state in the nation basing a deduction for interest expense on payroll.

I have discussed my concerns about Senate Bill No. 259 and my offer of tax equalization with Mr. Post and my staff has informed Senator Kostelka of our interest to work with him on a better solution than is represented by Senate Bill No. 259. Just as I kept SCP Pools from leaving Louisiana with tax equalization and developed long-term solutions for keeping other companies in similar situations from leaving with House Bill No. 679, we will keep CenturyTel in Monroe with the benefits of House Bill No. 679 and with our offer of tax equalization. We will also work diligently with Senator Kostelka, CenturyTel, and other interested parties to develop a thoughtful and balanced long-term approach to the issue of interest expense deductibility that doesn't adversely affect some of the Louisiana headquartered companies we are trying to help as Senate Bill No. 259 does. I am confident that we will succeed because job growth especially among companies that call Louisiana home is at the top of my agenda.

For these reasons I am vetoing Senate Bill No. 259 and returning it to the Senate.

Sincerely,

Kathleen Babineaux Blanco  
Governor

jw

# State of Louisiana

The seal of the State of Louisiana is centered between the words "State of" and "Louisiana". It features an eagle with its wings spread, perched on a shield. Below the shield is a banner with the words "UNION JUSTICE AND CONFIDENCE".

July 14, 2005

The Honorable Alfred W. Speer  
Clerk of the House of Representatives  
State Capitol  
Baton Rouge, LA 70804

Re: Senate Bill No. 259 by Senator Kostelka  
TAX/TAXATION: Provides for the calculation of a deduction from Louisiana income for interest expense applicable to investments which produce or which are held for the production of allocable income.

Dear Mr. Speer:

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